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5 November 1985

MEMORANDUM FOR: DDA
DDS&T
COMPTROLLER
D/OL
C/ALD/OGC
DC/ICLD/OGC
C/LP&S/OGC

STAT

FROM:
DC/LD/OLL

SUBJECT: Committee Report on Dept of Defense
Appropriation Bill for FY 86 concerning
Procurement Reform for the Intelligence
Community

1. Attached for your review and comment is part of an Appropriations Committee Report on H.R. 3629, the DOD appropriation bill for FY 1986. It concerns "procurement management reform" for the Intelligence Community. More specifically, the report requires the DCI to file a report with the Appropriations Committee evaluating the effectiveness of procurement policies of the Intelligence Community. While this requirement is part of the committee report, it is not part of the bill.

2. There is no equivalent provision in the Senate bill. On October 30, 1985, H.R. 3629 passed the House. The Senate Appropriations Committee is now working on the House bill. It is expected that the Senate will act on their version the week of November 11th and a Conference on the House and Senate versions will be held the week of 18th of November.

3. While this report may cause some concern, it should be borne in mind that it is the DCI who is asked to do the study and not some outside authority. In other words the DCI remains in control. Simply stated it is an "intelligence community in house" evaluation. Next, should we vigorously oppose this relatively straight forward request for a self evaluation, will not Congressional suspicions be aroused? In view of media attention given to procurement reform, Congress could come back at the Intelligence Community with something even less to our liking than what is now prescribed on page 48.

4. Since a conference on the House and Senate versions of the bill is tentatively scheduled for the week of November 18th, please provide your comments by November 12th.

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Attachment:
as stated

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partment of Defense audit and inspection organizations, of investigative journalism, by the various media, and of dedicated individual military and civilian workers who would not accept bureaucratic resistance and inaction. Significant new procurement management reforms are being implemented to ensure that the best possible defense is purchased for the least possible price. However, the Committee is concerned that by the very nature of the business conducted by the intelligence community, the same vigorous and far reaching scrutiny may not be available to highlight where improvement is needed in the procurement practices of these organizations. As a result, the Committee is directing that the Director of Central Intelligence provide a report to the Committee no later than March 1, 1986 evaluating the effectiveness of the procurement policies of the intelligence community, specifically addressing, but not being limited to, the following issues: initiatives implemented over the last few years, potential for increasing competition; volume of sole source contracts; adequacy of contractor performance; types of contracts used; cost overruns; overhead cost control; overspecification; contract audit and inspection; reverse engineering; "should cost" reviews; and overpricing. In addition, the Director of Central Intelligence should consult with the Inspector General of the Department of Defense to ascertain the procurement reforms implemented, or being implemented, in the Department of Defense which the Inspector General believes will be of significant benefit there, and comment on the extent to which these reforms may be applicable to, or have been implemented in, the intelligence community. The DCI should ensure that the report to the Committee addresses the status of any reforms being implemented, future initiatives which may be implemented, savings produced, and future goals.

BUDGETING FOR PROJECTED INFLATION

Over the past several years, the Department of Defense has worked with the Congress to ensure that the amounts budgeted for inflation are readily visible. While there may not be universal agreement as to the appropriate amount to be included for inflation in the annual Defense Appropriations bill, at least the Department has made significant strides in attempting to justify the amount requested as being based upon some index associated with fuel, procurement items, or expense items, or based upon specifically signed and legally binding contracts with escalation clauses.

The Committee has some concern that the same rigor in justifying projected inflation in the budget request is not pursued in the intelligence community. Therefore, the Committee is requesting that, as a part of the fiscal year 1987 budget request, the Director of Central Intelligence provide a breakout by intelligence program for each appropriation, the amount of inflation included, and supply to the Committee specific supporting documentation to indicate the basis for the request.

INTERNATIONAL TERRORISM

In his Annual Report to the Congress, the Secretary of Defense stated that "the United States will continue to seek a more active defense against terrorist attacks throughout the world." The Com-

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